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ABSTRACT

The various aspects of community development are discussed including place, population, socio-cultural organizations, economic structure, and political structure. Ideas for bringing new money into the community are presented. Suggestions for building an economic plan are given along with a success story of one community's efforts. The booklet concludes with sample student projects and a quiz. (FH)

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Economic Development for Communities

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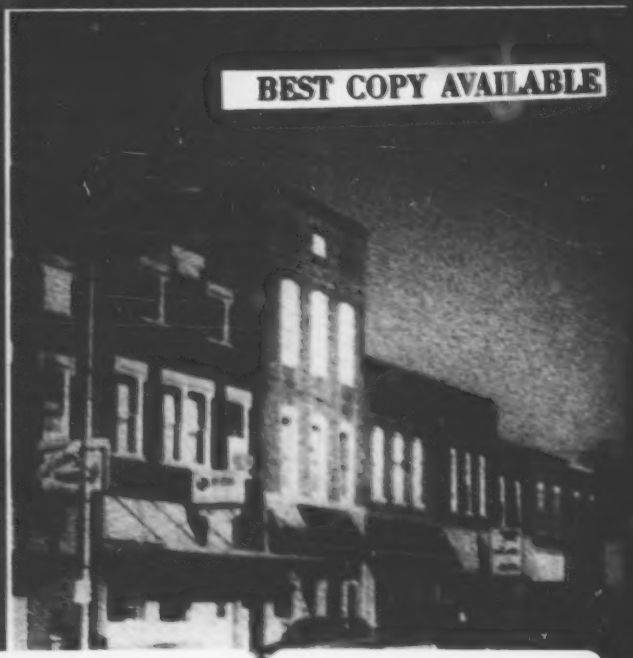

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Economic Development for Communities

About the Cover: Photo depicts a small town with businesses profiting from citizens in its community.

ECONOMIC ISSUES... is published by the Office of Academic Programs, Mary A. Welch, Editor.

Introduction

All of us live in communities. Communities are places which meet our needs—places to live, work, go to school, shop, and spend leisure time with friends and family.

One hundred years ago, most people were a part of one community. Roads were poor, and travel time was long between communities. But improved roads and transportation changed everything. Today, people can be part of several communities simultaneously. They can live in one area, work in another, and perhaps attend school in yet a different community.

Technological advances (including telecommunications) have changed the nature and type of businesses in communities. Some have expanded; others such as clothing and electronics manufacturers have left the United States to take advantage of less expensive labor. Over the past fifty years, agriculture has undergone a dramatic metamorphosis (*Economic Issues...* No. 4, Fall 1990). An aging population and changes in family structure require different service and federal policies are placing more responsibilities on local and state governments. All of these changes impact the quality of life in communities and have created a need for citizens to participate in community actions to maintain and to improve their quality of life.

Changes in society affect the mix and type of businesses in communities. The number and variety of service businesses have increased dramatically. Because more people are eating out and taking vacations, business sales for restaurants, airlines, and hotels/resorts have increased. An aging population has

Community Development is a process whereby people in a community arrive at group decisions and take action to enhance the social and economic well-being of their community.

increased the need for health care services. So why is there a need for developing the community?

Community Development is a process whereby people in a community arrive at group decisions and take action to enhance the social and economic well-being of their community. Actions to create change do not just happen. Specially trained people like Dr. Janet Ayres, Extension Specialist in Purdue University's Department of Agricultural Economics, are available to help a community develop this process.

How does Community Development work?

To understand community development, consider that the dimensions of a community vary:

Place. This defines a community as a geographical place with specific physical features (school districts, town limits, county lines). Is the community rural and isolated or is it a suburban town of a larger city? Is it located in the center of a farming, mining, or forest area? Is the terrain flat, mountainous, or located on/near a lake? Or is it a suburban town of a larger city?

Population (Ages, sexes, races, income levels, educational levels.) Does the area consist primarily of young families, elderly, white or blue collar workers, or different racial and ethnic groups?

Socio-cultural organizations (Informal groups and networks reflect ideas, beliefs, attitudes, values, and expected behavior.) What religions, schools, and organizations are present in the community?

Economic structure (A system which produces, buys, sells, and consumes goods and services to generate jobs and income). How do people in the community generate their disposable income? Where do people shop? What do they buy?

Political structure. What is the structure of the local government which develops community policies and provides public services?

In order to create the organization necessary for developing an effective community plan, the community must have leadership. Community leadership is defined as the ability of citizens to accomplish important things for the public good, refer to *Economic Issues*... Fall, 1991, No. 5.

One of the major concerns leaders have while developing this process is creating jobs and increasing the income level of its citizens—*economic development*. The primary objective of economic development in a community involves creating a plan to attract new money from outside the community and keep plugging as many leaks as possible to keep dollars in the local economy. This is often referred to as the "leaky bucket" theory.

Your Economy as a Leaky Bucket

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How do we bring new money into the community?

The economic base grows when one of the following happens:

1. We *export* or sell our products or services outside the local economy. This activity brings additional dollars into the bucket.

Businesses that sell goods and services outside the borders of the local market area are developing "export activities." Money comes into the community or area in exchange for these goods or services. These activities include:

- Commercial tourism (community creates an outdoor drama)
- Construction (company XYZ successfully bids for jobs in another town). Profits from a successful contract bring dollars into the community.
- Corporate headquarters or home office (profits from sales in other communities return to headquarters)
- Farming (agricultural products are sold in other parts of the United States or the world)
- Major distribution center (a warehouse distributes its products to other states or countries)
- Manufacturing (a molded plastic door part is shipped to auto assembly plants in U.S. and Mexico)
- Mining (coal is shipped to power plants in three states)
- Motels/Restaurants (on an interstate between Chicago and Indianapolis, travelers stop for food and lodging)
- Recreation (people from other towns come to a historical site or festival).

Additionally, some money comes into the community through transfer payments (government contracts, social security, and other government programs), rents, interest, and dividends.

The growth of transfer payments, particularly those that are retirement related, represents a major and increasing source of purchasing power for rural communities. Those areas experiencing a decline in earning and employment opportunities (provided by traditional industries) can benefit by capturing a larger share of the retirement dollars and related transfer payments.

In some areas, the growing retirement-age population can be thought of as a new and emerging industry. These opportunities will tend to be in the service-producing area, and will probably not provide the level of income that is associated with goods-producing industries.

2. A number of firms and individuals in the community produce for the local market. Their products and services are used by other local businesses or residents of the community. The firms and individuals that sell these goods and services in the local economy provide "roll-over-dollar" activities (keeps dollars in the "bucket"). Buyers in the community include:

- Religious groups
- Local government
- Medical services
- Retail and wholesale businesses
- Schools

Dr. Ayres identifies three general ways to create economic development in a community.

Added value. Economic value can be added to goods already produced in the community. *Example:* Sheep producers can add value to their product, wool, when a cooperative cleans and processes the wool. As a result, the cooperative is able to get a higher price per pound, and those dollars stay in the community.

Resource enhancement. Increasing

the use of local wealth and talent in a community is another way to further develop its economic base. In order to increase the number of qualified applicants, a local adult education program might be established to upgrade the skills of its local citizens. Another example is when existing resources are evaluated to identify those which are unused or underused, and them utilized to generate, or support, an economic activity. *Example:* A vacant building is renovated in a community to start a new business.

Import substitution. Goods and services that are purchased outside the community require that dollars be sent out of the community to purchase them. With this approach, the goal is to encourage people and businesses to buy locally, thus keeping dollars in the bucket. *Example:* A local business could purchase its supplies or parts in the community or encourage those needing certain supplies and services to start a supply business.

These general approaches translate into several specific strategies or actions to develop the local economy. The following strategies are often used.

Attract new industry. In the past, this was usually the first and only strategy community leaders considered for increasing income or employment. It involves seeking new basic employers to locate in the community. Sometimes it could be a major employer, but for small communities it would more realistically be small businesses. Through this opportunity, the employment base of the community is broadened. This involves bringing in new dollars for investment, along with new people and ideas to expand the goods or services exported from the area.

Business and industry retention and expansion. This strategy requires that community leaders work closely with existing local businesses to provide the support necessary for these businesses to remain viable in the community. Because most new jobs come from existing businesses, it is often easier and less expensive to help keep an existing business viable in a community rather than pursuing a new business start-up. *Example:* A business may possibly close because of the retirement of its owner. The community could develop a plan to allow a local entrepreneur to gradually buy into the business.

Commercial and retail development or redevelopment. This strategy involves targeting the community to become a specialized retail center. Improving the business sector's ability to capture dollars is essential. *Example:* Local retailers might survey its customers' needs and buying habits to help identify areas for improvement by using stronger marketing techniques and better customer service.

Tourism development. This strategy focuses on identifying opportunities for developing an event, facility, or attraction that brings people to the community to spend recreational dollars.

Attraction of the retirement industry. This strategy emphasizes the amenities of life that attract retired people to live in the community. Retirees in a community bring additional business activity and should be considered an industry. The elderly import income to the community, living on prior savings or investments in the form of social security, private pensions, stocks, bonds, real estate, or savings accounts. They require basic services such as groceries, housing, health care, and tend to spend their

income locally. Well-organized public transportation, meal service, health care, recreation, and other services focused on the elderly can go a long way to keeping the buying power of the "silver-haired industrial base" in the community.

Agribusiness opportunities. This strategy focuses on the community becoming a specialized center servicing the needs of farmers and agribusinesses. This includes encouraging new businesses that specialize in personal services, professional services, or wholesale and warehousing enterprises to locate and expand in the community. Adding value locally to farm products before the product leaves the community is an important example. A processing plant that makes starch would add value to the farm product, corn, before it leaves the community.

New business development. Creating opportunities and support systems for entrepreneurs interested in opening a business is the focus of this strategy. Examples of new business ventures include cooperatives and home-grown businesses ranging from craft shops to industrial plants. Business "incubators" that provide lower-cost rentals and support services to help a business get started are available in some towns. Creating a financial "revolving loan fund" to provide low-cost loans that would be repaid as new businesses become established is an example of new business development strategy.

Improve the efficiency of existing firms. Improving efficiency can be accomplished by strengthening the management capabilities and the quality of the work force within a business. Methods include training programs, identifying capital resources, and encouraging the adoption of new technology.

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Management training and employee skill training can result in increased productivity for resources used.

Be a commuter or bedroom community. Improved roadways and reliable automobiles have brought many smaller communities within commuting distance of larger labor markets. Studies show that many people prefer a more rural or small town life style and are willing to commute to their jobs. Some small communities are marketing themselves as bedroom communities. They emphasize the quality-of-life and the economy of living in their towns, while commuting to jobs and the amenities offered by larger places. By attracting commuters, some towns have stemmed their loss of population, seen younger families move in, kept their schools open, retained profitable businesses, utilized excess sewer and water capacity, and filled vacant housing.

Building an Economic Plan

How does an economic plan get started? How does it work? Who makes it work? Ames subscribes to a process which she feels creates the opportunity for the community leadership to take the necessary action to initiate, develop, and execute a plan. A plan is generated through a process of citizens working together to identify issues, analyze alternative solutions, and take action.

A plan can be created as follows:

Build a coalition among diverse interests.

It is important that all stakeholders of the community come together to develop a long-range economic development plan including local government, banks, utilities, real estate, agriculture, health care, local businesses/industry, religious, union, and youth organizations.

The mission for the coalition involves the following steps:

A. Create a vision for the future (set goals and objectives).

B. Plan for action.

C. Mobilize resources within the community and outside the community at the regional, state, and federal level.

D. Manage for success.

A success story

A town in northern Indiana (population 7,000) was experiencing a downturn. Unemployment was increasing due to industry closings. The community built a coalition of community leaders who had a vested interest in seeing the community survive and prosper.

The coalition developed a strategic plan which took one year to complete. The plan was based on three primary questions:

1. What was their future?
2. What were their resources?
3. How would they make their desired future happen?

They were able to evaluate their resources (remaining industry), work to keep shopping dollars local, and were very aggressive in recruiting businesses to locate in their area. There was an all-out effort by the local citizenry to carry out the plan— everyone got involved in bringing the plan to fruition.

Today, their industrial park is full, and plans are underway to build a second industrial park. Why was this such a success? They were serious about doing business with business. The total community was working toward the same goals. Dr. Ayres believes the common goals developed by a coalition represent-

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ing all aspects of a community and the commitment of key stakeholders working together are the essentials to this success.

Summary

Today, many communities which were growing and thriving several years ago are experiencing great difficulty helping businesses remain viable, financing community services, and maintaining a high quality of life. Why care about community development? The results can produce higher income levels for its citizens and greater opportunities for youth to remain in the community as productive adults. They can provide a tax base to support quality public services.

Dr. Janet Ayres, Extension Specialist in the Department of Agricultural Economics at Purdue University, acts as a facilitator to develop coalitions (citizens representing all aspects of the community). The coalition works together to create a vision (set goals and objectives), develop a plan for action, mobilize resources inside and outside the community, manage the plan, and provide for follow-up. Establishing leadership and eliciting cooperation of individuals in the community is important to the success of community development.

Successful economic development in a community involves an effort to export products and services to other communities, states, or nations; thus dollars are imported to the community. Keeping the imported dollars in the community is essential to the success of economic development. Two strategies that can help assure the success of the plan are the enhancement of existing businesses or the start-up of new businesses which result in bringing new money into the community.

and to spend as many of the imported dollars as possible in the community. Communities that have been successful in the economic development process are those whose citizens have been committed to their plan and who work toward the common goals they have identified.

Janet S. Ayres

Janet S. Ayres

Dr. Janet Ayres is an Associate Professor in the Department of Agricultural Economics and a Rural Development Specialist with the Cooperative Extension Service at Purdue University. She has conducted research and assisted over 200 rural communities in Indiana. Her most recent project is "Take Charge," a consensus-building program for rural communities. Take Charge has been conducted in 17 counties in Indiana and is being used in a dozen states around the country.

Ayres has written several publications on rural communities, leadership development, and public policy. She is a frequent consultant to state and federal agencies and private companies on leadership and rural development. Dr. Ayres has been an advisor to the USDA Rural Revitalization Taskforce, a member of the Governor's Economic Development Initiative, and chair of the Rural Development Taskforce.

As a Kellogg Fellow, Ayres has traveled throughout the world as a community development specialist. She recently returned from Guatemala and will soon be studying community development in Poland, Hungary, and Czechoslovakia.

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PROJECTS:

Take a survey in your community. Interview leaders and citizens in your local community by asking some of the following questions. Use the "leaky bucket" diagram to detect leaks that are occurring in your community.

Consider the following questions. Dollars flowing into the bucket...

- Are citizens generally employed in the community?
- What goods and services produced in your community are sold outside the community?
- Is there a tourist or vacation area in your community?
- Do citizens from other communities come to your community to shop or receive medical treatment?
- Are tax dollars available for local programs in your community?

Dollars flowing out of the bucket...

- Do citizens in your community shop in other communities?
- Do citizens in your community go out to eat or spend entertainment dollars in nearby cities?
- What products or supplies do local businesses or industry purchase from sources outside your community?
- Are citizens in your community borrowing money for home or business improvements at banks outside your community?
- Do banks in your community lend money to local community citizens for home or business improvements or are dollars invested outside the community or state?

Your Economy as a Leaky Bucket

QUIZ

Multiple Choice– Circle the letter of the best response.

1. Why do community specialists like Dr. Ayres believe creating a coalition is an important part of building an effective community plan?
   A. To get input, hear concerns, and consider impacts of decisions from many aspects of the community.
   B. To enable the community to make consensus decisions.
   C. A coalition is most effective to evaluate whether to encourage a business or industry to build in a community.
   D. A coalition can ban together to help failing businesses develop strategies to stay competitive in a community.
   E. All of the above are true.

A coalition of citizens in Juniper, Indiana is trying to improve its economic well being. The following questions are being considered by the coalition.

2. Which of the following examples would help plug leaks from the "Local Economic System Bucket" in Juniper, Indiana?
   A. A large retail firm headquartered in North Carolina builds a regional wholesale unit in Juniper with retail outlets in ten locations throughout the United States.
   B. Hinges for a small furniture manufacturer in Juniper are ordered from a hardware supplier in Pennsylvania.
   C. A prominent business owner in Juniper dies leaving all of his assets to his three children who live in Chicago, Pittsburgh, and southern Illinois.
   D. A construction firm in Juniper, gets a bid to do a job in Minneapolis. They complete the job on time and are paid in full.
   E. All of the above are true.

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3. A sawmill in Juniper adds the process of planing and smoothing rough-sawed lumber to get a higher price from the furniture company in Juniper who buys much of its lumber. The sawmill in Juniper is creating which of the following economic development strategies discussed in the text?

A. Resource enhancement
B. Import substitution
C. Value Added

4. The Juniper community can help keep transfer payments and pension dollars of retired people in the "bucket" if
   A. Retirees deposit transfer payments and other retirement income dollars in a Juniper bank, and the community provides convenient shopping tours to a nearby larger city.
   B. Airline tickets are purchased from a local travel agent for retirees to travel to warm climates for the winter months.
   C. A senior citizen housing unit is established which includes recreation, accessible local shopping, and social services to its residents.
   D. An endowment is established to which seniors could contribute money from pensions and transfer payments to provide educational and art enrichment for the community.
   E. C and D only are true.

5. Which of the following best describes the concept of import substitution in Juniper?
   A. An old warehouse is renovated to expand the sawmill, so logs from other areas can be brought to Juniper for processing.
   B. A new convenience grocery is built at the edge of town to encourage local shopping.
   C. A small manufacturer starts up to produce hinges for the furniture manufacturer in Juniper currently ordering hinges from a supplier in Pennsylvania.
   D. An outdoor drama is created to attract tourists traveling from Indianapolis to Louisville.
   E. All of the above are true.

Answers to multiple choice questions: 1-E, 2-D, 3-C, 4-E, 5-C

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